

VZCZCXRO5506  
OO RUEHROV  
DE RUEHJM #0468/01 0741658  
ZNY CCCCC ZZH  
O 141658Z MAR 08  
FM AMCONSUL JERUSALEM  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0876  
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 000468

SIPDIS

SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR  
GOLDBERGER/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/PASCUAL; EEB  
FOR DIBBLE; TREASURY FOR SZUBIN/GRANT/HARRIS/NUGENT/HIRSON

E.O. 12958: DECL: 03/12/18

TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [KWBG](#) [IS](#)

SUBJECT: PA REPORTS CLEARANCE REVENUES CONTINUE TO BE HELD  
FOR TWO MONTHS BUT TIMING OF TRANSFERS MORE PREDICTABLE

REF: A. TEL AVIV 559

[1](#)B. JERUSALEM 169

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. The GOI recently delivered on a commitment to transfer clearance revenues early each month in order to facilitate Palestinian Authority (PA) payment of public employee salaries, according to a PA Ministry of Finance official. The amount transferred, however, has not significantly changed, and the GOI continues to withhold collected funds for up to two months before they are transferred. The GOI has paid a small portion of the NIS 1 billion in accumulated interest the PA says it is owed for periods when clearance revenue transfers were frozen. The GOI has also acknowledged it needs to transfer funds identified in secondary audits of goods bound for the West Bank and Gaza. Import diversion may be costing the PA as much as 50 percent in customs revenue a month. GOI-PA dispute committees are to be set up soon. End summary.

-----  
Transfer Timing Improved  
-----

[1](#)2. (C) PA Ministry of Finance DG Hatem Yousef, the PA's lead in clearance revenue talks with the GOI, told Econoff March 12 that the GOI followed through on its recent commitment to complete its monthly transfer of clearance revenues earlier in the month to facilitate the payment of PA salaries.

(Note: Clearance revenues are customs, VAT, and petroleum excise tax revenues collected by the GOI on behalf of the PA.

Transfers of these funds have been irregular in the past, including extended periods when the GOI suspended transfers entirely. End note.) Yousef said that he has been working for months with his Israeli counterparts to increase both the amount transferred each month as well as the speed with which the process is completed. He noted that in the past customs and petroleum excise tax revenues were transferred weekly.

(Note: Weekly transfers occurred prior to the creation of the single treasury account. Petroleum excise tax revenues were transferred to a separate account controlled by Arafat's financial advisor, Khalid Salam. This arrangement ceased when Salam Fayyad became Minister of Finance.) Since 2003, when Fayyad became Finance Minister, all clearance revenues have been transferred monthly.

-----  
New Payment Mechanism Rejected  
-----

13. (C) Yousef said the GOI rejected a proposal he advanced in November 2007 that would have reduced the two-month delay in transferring collected funds. Under his proposal, a portion of the clearance revenues already collected the previous month would have been added to the current transfer, thus significantly increasing the funds available for PA budget support.

-----  
Deductions  
-----

14. (C) The mechanism governing clearance revenue collections and transfers stipulates that the PA must authorize any deductions in advance, according to Yousef. He added, however, that the PA is not in a strong position to oppose deductions because it has immediate need of the clearance revenues and an objection to a deduction could delay the entire transfer. Yousef said he failed to convince his Israeli counterparts in the February 26 meeting to exclude or reduce a NIS 125 million deduction for payments to the Israel Electric Company (IEC). He argued that PM Fayyad is pressing individual Palestinians and West Bank municipalities to pay their electric bills (ref. b), and obliging the PA to continue paying these charges in full undermines this effort by reducing incentives to collect and pay bills. Yousef acknowledged that the PA owes NIS 200 million to the IEC, but added that the IEC has not paid income tax to the PA since 1995. (Note: Former IMF Senior Auditor and current Economic Advisor to PM Fayyad Karim Nashashibi told international donors March 13 that during the February 26 meeting the GOI rejected documentation showing that some municipalities and other entities had paid their bills directly to the IEC. End Note.)

JERUSALEM 00000468 002 OF 002

-----  
Interest Debt/Owed Funds Acknowledged  
-----

15. (C) The GOI added NIS 75 million to the March 5 transfer as partial payment to the PA for interest that had accumulated during periods when the clearance revenue transfers were frozen. (Note: From 2001 - 2003 and 2006 until late 2007, according to Yousef. End note.) Yousef characterized the GOI payment of interest owed as a positive development. He noted that the PA's estimate of the total interest owed is NIS 1.17 billion, and added that this estimate has been passed to the GOI with supporting documentation.

16. (C) Yousef said the GOI had also recently acknowledged the need to transfer customs revenue identified by secondary audits on goods imported through Ashdod port and destined for the West Bank or Gaza. He explained that GOI officials re-examine import documentation after customs charges have been paid and goods released. In cases where the secondary audit shows an underpayment, the additional funds collected have not been forwarded to the PA since 1999. The GOI has not indicated when the transfer of these funds will begin.

-----  
Dispute Committees  
-----

17. (C) The GOI and PA have agreed to set up dispute committees to address other issues related to the collection and transfer of clearance revenues. Yousef said one of the most important issues is how to reduce indirect imports, whereby Israeli companies pay customs to the GOI on imported goods but then sell them to customers in the West Bank, thus depriving the PA of its rightful customs revenue on these transactions. Yousef estimated that import diversion is costing the PA as much as 50 percent in customs revenue a month.

